DIRECT RELIEF INTERNATIONAL,
DIRECT RELIEF FOUNDATION AND
DIRECT RELIEF INTERNATIONAL (SOUTH AFRICA)

COMBINED AND CONSOLIDATED
FINANCIAL STATEMENTS

JUNE 30, 2011

DIRECT RELIEF INTERNATIONAL,
DIRECT RELIEF FOUNDATION AND
DIRECT RELIEF INTERNATIONAL (SOUTH AFRICA)

June 30, 2011

TABLE OF CONTENTS

McGowan Guntermann
A PROFESSIONAL CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Direct Relief International, Direct Relief Foundation
and Direct Relief International (South Africa)
Santa Barbara, California

We have audited the accompanying combined and consolidated statement of financial position of Direct Relief International, Direct Relief Foundation and Direct Relief International (South Africa) (non-profit corporations) as of June 30, 2011, and the related combined and consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit. Information for the year ended June 30, 2010, is presented for comparative purposes only and was extracted from the financial statements for that year, on which an unqualified opinion dated October 22, 2010, was expressed.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Due to the cost versus benefit of preparing the fair value level disclosures as required by the fair value measurements and disclosures topic of Accounting Standards Update 820, the Organization has omitted these expanded disclosures in notes 3 and 4 to the financial statements. It was not practicable to determine the effects of not presenting the disclosures on the financial statements.

In our opinion, except for the effects of not presenting the fair value disclosures as discussed in the preceding paragraph, the combined and consolidated financial statements referred to above present fairly, in all material respects, the financial position of Direct Relief International, Direct Relief Foundation, and Direct Relief International (South Africa) as of June 30, 2011, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of financial position, activities and changes in net assets, functional expenses, and cash flows of Direct Relief International on pages 19 - 21 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

SIGNATURE REDACTED

October 14, 2011

DIRECT RELIEF INTERNATIONAL, AND DIRECT RELIEF FOUNDATION AND DIRECT RELIEF INTERNATIONAL (SOUTH AFRICA)
(NON-PROFIT CORPORATIONS)

COMBINED AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 2011

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010)

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	(Memo) Total June 30, 2010
Assets					
Current assets:					
Cash and cash equivalents	$ 1	$ 8,689	$ -	$ 8,690	$ 7,309
Investments	26,508	855	25	27,388	25,958
Contributions and other receivables	439	-	-	439	75
Inventories	206,700	-	-	206,700	111,110
Prepaid expenses	188	-	-	188	175
Total current assets	233,836	9,544	25	243,405	144,626
Property and equipment - net of accumulated depreciation of $2,585,844	6,871	-	-	6,871	6,368
Bequest receivable	-	141	-	141	510
Other assets	-	138	-	138	167
Total assets	$ 240,707	$ 9,823	$ 25	$ 250,555	$ 151,671
Liabilities and Net Assets					
Liabilities:					
Current liabilities					
Accounts payable	$ 356	$ -	$ -	$ 356	$ 681
Current portion of capital lease	7	-	-	7	3
Other current liabilities	975	-	-	975	628
Total current liabilities	1,338			1,338	1,312
Long-term debt	1,400	-	-	1,400	1,400
Capital lease obligation	18	-	-	18	-
Distribution payable - split interest agreements	-	5	-	5	7
Total liabilities	2,756	5	-	2,761	2,719
Net assets:					
Unrestricted net assets					
Board designated reserve fund	29,249	-	-	29,249	29,082
Undesignated	208,702	-	-	208,702	113,571
Total unrestricted net assets	237,951	-	-	237,951	142,653
Temporarily restricted assets	-	9,818	-	9,818	6,274
Permanently restricted assets	-	-	25	25	25
Total net assets	237,951	9,818	25	247,794	148,952
Total liabilities and net assets	$ 240,707	$ 9,823	$ 25	$ 250,555	$ 151,671

The accompanying notes are an integral part of these financial statements.

DIRECT RELIEF INTERNATIONAL, AND DIRECT RELIEF FOUNDATION AND DIRECT RELIEF INTERNATIONAL (SOUTH AFRICA
(NON-PROFIT CORPORATIONS)

COMBINED AND CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010)

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	(Memo) Total June 30, 2010
Public support:					
In cash and securities:					
Contributions	$ 4,109	$ 6,572	$ -	$ 10,681	$ 11,603
Business and foundation grants	356	5,035	-	5,391	2,785
Workplace giving campaigns	444	-	-	444	550
Special events	28	149	-	177	-
Total public support from cash and securities	4,937	11,756	-	16,693	14,938
From donated goods and services:					
Pharmaceuticals, medical supplies and equipment	388,232	-	-	388,232	323,314
Contributed freight	1,368	-	-	1,368	1,298
Contributed goods - other	14	-	-	14	103
Professional services received	517	-	-	517	1,246
Total from donated goods and services	390,131	-	-	390,131	325,960
Total public support	395,068	11,756	-	406,824	340,898
Revenue:					
Investment income	303	24	-	327	515
Gain (loss) on sale of investments	(419)	-	-	(419)	736
Change in value - split interest agreements	-	(18)	-	(18)	13
Unrealized gain on investments	3,325	-	-	3,325	653
Program service fees	10	272	-	282	186
Other income	-	-	-	-	(3)
Total revenue	3,219	278	-	3,497	2,099
Net assets released from restrictions:	8,491	(8,491)		-	-
Total public support and revenue	406,778	3,544	-	410,322	342,997
Program services:					
Medical supplies and related expenses	307,454	-	-	307,454	269,972
					-
Supporting services:					-
Administration	2,574	-	-	2,574	2,173
Fundraising	1,455	-	-	1,455	1,560
Total supporting services	4,029	-	-	4,029	3,733
Total expenses	311,483	-	-	311,483	273,704
Change in net assets	95,296	3,544	-	98,839	69,293
Net asset balance beginning of year	142,656	6,274	25	148,956	79,659
Net asset balance end of year	$ 237,951	$ 9,818	$ 25	$ 247,794	$ 148,952

The accompanying notes are an integral part of these financial statements.

DIRECT RELIEF INTERNATIONAL, AND DIRECT RELIEF FOUNDATION AND DIRECT RELIEF INTERNATIONAL (SOUTH AFRICA)
(NON-PROFIT CORPORATIONS)

COMBINED AND CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010)

(in thousands)

	Program Services		Total	Supporting Services		Total Program	(Memo) Total Program
	USA	International	Program Services	Administration	Fundraising	and Supporting Services June 30, 2011	and Supporting Services June 30, 2010
Compensation and related benefits:							
Salaries	$ 740	$ 1,841	$ 2,581	$ 1,223	$ 801	$ 4,604	$ 3,920
Payroll taxes	50	117	167	78	53	299	260
Employee benefits	93	216	310	155	100	565	505
Total compensation and related benefits	884	2,174	3,058	1,456	954	5,468	4,685
Other expenses							
Pharmaceuticals, medical equipment and supplies distributed - donated	43,753	228,392	272,145	-	-	272,145	243,407
Pharmaceuticals, medical equipment and supplies distributed - procured	112	2,067	2,179	-	-	2,179	1,236
Inventory adjustment (expired pharmaceuticals)	3,237	17,005	20,242	-	-	20,242	12,770
Accounting and legal fees	1	13	14	77	1	92	93
Advertising	-	-	-	4	6	10	7
Bank charges	-	1	1	86	-	87	61
Contract services	54	1,046	1,100	322	66	1,489	1,487
Contributed services	44	246	290	171	56	517	1,246
Contributed freight	219	1,149	1,368	-	-	1,368	1,298
Contributed goods	1	4	5	1	8	15	103
Disposal costs (expired pharmaceuticals)	7	26	33	-	-	33	51
Dues and subscriptions	7	29	37	15	10	62	69
Duplicating and printing	1	-	1	70	31	102	100
Equipment and software maintenance	22	62	84	24	33	140	97
Equipment rental	1	28	29	1	2	32	24
Freight and transportation	72	1,714	1,785	-	-	1,785	1,928
Grants and stipends	108	2,656	2,764	-	-	2,764	2,231
Insurance	10	30	40	13	6	59	56
Interest	17	40	56	18	13	88	87
Meetings, conferences, special events	9	39	48	18	31	97	114
Miscellaneous	-	-	-	7	-	7	-
Outside computer services	2	5	7	4	46	58	61
Postage and mailing services	-	3	3	14	24	41	64
Rent and other occupancy	82	652	734	17	12	763	719
Supplies	162	149	311	24	22	356	301
Taxes, licenses and fees	18	5	23	12	-	35	23
Training and education	1	16	17	2	-	19	3
Travel and automobile	43	360	403	38	11	452	396
Utilities and telephone	24	138	163	33	15	210	180
Web hosting	49	117	166	54	38	258	254
Total expenses before depreciation	48,937	258,167	307,104	2,480	1,386	310,971	273,148
Depreciation and amortization	95	255	349	94	69	512	556
Total functional expenses - June 30, 2011	$ 49,032	$ 258,422	$ 307,454	$ 2,574	$ 1,455	$ 311,483	
Total functional expenses - June 30, 2010	$ 58,161	$ 159,551	$ 269,972	$ 2,173	$ 1,560		$ 273,704

The accompanying notes are an integral part of these financial statements.

DIRECT RELIEF INTERNATIONAL, AND DIRECT RELIEF FOUNDATION AND DIRECT RELIEF INTERNATIONAL (SOUTH AFRICA)
(NON-PROFIT CORPORATIONS)
COMBINED AND CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010)

(in thousands)

	Total June 30, 2011	(Memo) Total June 30, 2010
Cash flows from operating activities:		
Cash collected from public support and other program services	$ 16,997	$ 14,813
Cash paid for goods and services	(16,411)	(13,911)
Dividend and interest income	327	515
Other income	-	(3)
Net cash provided by operating activities	914	1,413
Cash flows from investing activities:		
Purchase of investments	(9,928)	(21,227)
Proceeds from sale of investments	11,399	19,576
Purchase of capital assets	(1,020)	(1,055)
Unitrust distribution	(2)	(2)
Net cash provided (used) for investing activities	450	(2,708)
Cash flows from financing activities:		
Payments on capital lease obligation	18	(3)
Net cash provided (used) for financing activities	18	(3)
Net increase (decrease) in cash and cash equivalents	1,381	(1,297)
Cash and cash equivalents - beginning of year	7,309	8,606
Cash and cash equivalents - end of year	$ 8,690	$ 7,309
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	$ 98,839	$ 69,293
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	512	556
Change in inventory	(95,590)	(67,163)
Change in receivables	22	(311)
Change in prepaid expenses and other assets	16	(8)
Change in accounts payable and accrued expenses	26	439
Loss on fixed assets disposed of	(5)	(1)
Loss on other assets disposed of	(0)	(3)
Realized gain/(loss) on sale of investments	419	(736)
Unrealized gain/(loss) on investments	(3,325)	(653)
Net cash provided by operating activities	$ 914	$ 1,413

The accompanying notes are an integral part of these financial statements.

Note 1: Organization

Direct Relief International (DRI) is a California non-profit public benefit corporation founded in 1948 whose mission is to improve the health and lives of people affected by poverty, disaster, and civil unrest.

DRI's program services consist of providing essential pharmaceuticals, medical supplies and medical equipment to support health services in medically underserved communities on an ongoing humanitarian basis and in response to emergency situations and disasters around the world. In the United States, DRI's activities focus on the delivery of donated medicines and supplies to uninsured patients through the support of nonprofit clinics and health centers treating low-income patients. In Santa Barbara and surrounding communities, DRI conducts programs dedicated to improving the oral health of children from low-income families and enhancing disaster preparedness efforts. Under agreements with local emergency response authorities, DRI's medical inventories are available on an as-needed basis in the event of a health emergency.

DRI's financial support is derived through contributions from individuals, corporations and foundations. The medical material resources provided as part of DRI's assistance program are either purchased or received by donation from pharmaceutical and medical supplies manufacturers, wholesalers, and other organizations involved in the health care industry.

The Direct Relief Foundation (Foundation) was formed and incorporated in the state of California as a supporting organization of DRI in October 2006. The Foundation is organized to operate solely and exclusively to support, benefit, or to carry out the purposes of DRI. Except to an insubstantial degree, the Foundation does not carry on or engage in any activities or exercise any powers that are not in furtherance of the purposes of DRI. The Foundation began operations on April 1, 2007. The Foundation's financial statements are combined with DRI's financial statements.

Direct Relief International (South Africa), (DRI-SA) is a wholly owned subsidiary of DRI and commenced operations in the Republic of South Africa on July 1, 2009. DRI-SA was registered in South Africa as a public benefit corporation in October 2007. DRI-SA's financial statements are consolidated with DRI's financial statements.

Note 2: Summary of Significant Accounting Policies

Basis of Presentation

The combined and consolidated financial statements include the accounts of DRI, DRI-SA and the Foundation. All significant balances and transactions among the entities have been eliminated in the accompanying combined and consolidated financial statements. The combined and consolidated financial statements have been prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America. To present comparative financial statements, the Organization has included summarized comparative information for the twelve-month period ending on June 30, 2010.

The Organization has also included separate financial statements for DRI as a supplement to the combined and consolidated statements.

Revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

> *Unrestricted net assets* — Net assets that are not subject to any donor-imposed restrictions.
>
> *Temporarily restricted net assets* — Net assets subject to donor-imposed restrictions on their use that may be met either by actions of the Organization or the passage of time.
>
> *Permanently restricted net assets* — Net assets subject to donor-imposed or other legal restrictions requiring that the principal be maintained permanently by the Organization.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements. Actual results could differ from management's estimates.

Cash Equivalents

The Organization considers all highly-liquid investments purchased with an average maturity of three months or less to be cash equivalents. Cash equivalents, consisting of money market mutual funds and checking account balances, were valued at $8.7 million as of June 30, 2011.

Valuation of Future Interests

The Organization serves as trustee of a unitrust, of which it is the charitable beneficiary. The Organization is also the beneficiary of several charitable remainder trusts. The future interests in the unitrust and charitable remainder trusts are recorded as assets and valued at fair value on the date of each gift. Investments in the trust are adjusted to fair value at the end of each year. The present value of the total estimated future distributions to the donors on the date of each gift is recorded as a liability. The present value of the Organization's interest in each of the charitable remainder trusts is also adjusted on an annual basis.

Inventories

Purchased inventory is carried at average cost. Donated inventory is carried at average estimated wholesale value as of the date of receipt. Inventory balances as of June 30, 2011, were composed of the following (in thousands):

Pharmaceuticals	$ 201,400
Medical supplies/kits	3,890
Equipment	1,410
Total inventories	$ 206,700

Property and Equipment

Property and equipment purchased are recorded at cost. Donated assets are capitalized at the estimated fair value on the date of receipt. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Class of property	Estimated useful life
Buildings	40
Building improvements	20
Equipment and software	3-10

Revenue Recognition

Contributions, which include unconditional promises to give (pledges), are recognized as revenue in the period received or promised. Conditional contributions are recorded when the conditions have been met. Contributions are considered to be unrestricted unless specifically restricted by the donor.

The Organization reports contributions in the temporarily or permanently restricted net asset class if they are received with donor-imposed restrictions as to their use. When the restriction expires (the time restriction ends or purpose of restriction is accomplished), temporarily restricted net assets are released and reclassified to unrestricted net assets in the statement of activities. Donor-restricted contributions are initially reported in the temporarily restricted net asset class, even if it is anticipated that such restrictions will be met in the current reporting year.

Contributed Materials

Contributions of U.S. Food and Drug Administration approved pharmaceuticals, branded and generic, are recorded at estimated wholesale value on the date received, based on the Wholesale Acquisition Cost (WAC) as published in the Thomson Reuters RedBook© . The Red Book is an industry recognized drug and pricing reference guide for pharmaceuticals in the United States. WAC is the standard used by many U.S. states as the Federal Upper Limit pricing for drugs purchased under the Medicaid program. If the wholesale value is not available in the Red Book, the wholesale value of the contribution is based on other appropriate Internet pricing sources. For non-FDA-approved pharmaceuticals, for example, products manufactured for use in non-U.S. markets, the organization uses independent pricing guides to determine the fair market value of the particular manufacturer's specific formulation. The sources of such pricing information vary, but relevant information may include the price paid by wholesalers or other third-party buyers, a price negotiated by an organization (such as the Clinton Foundation) for a particular drug, or other such reasonable basis. Contributions of medical equipment and supplies are also recorded at estimated wholesale value based upon appropriate pricing information on the specific item listed for sale in trade publications, through online Internet pricing guides, and through its own procurement history when purchasing. Such valuations typically are substantially lower than published retail prices.

Contributed Services

Donated or contributed services are reported at fair value in the financial statements for voluntary donations of services when those services (1) create or enhance non-financial assets or (2) require specialized skills provided by individuals possessing those skills and are services which would be typically purchased if not provided by donation. Donated shipping is valued at the Organization's discounted percentage of full published rates in effect at the time of shipment. The value of donated services and shipping is also recorded as an equivalent expense in the same period in which the services are received.

Joint Costs

During the year the Organization incurred joint costs of $74 thousand for informational materials that included fundraising appeals. The Organization allocated $55 thousand to administration expense and $19 thousand to fundraising expense.

Note 3: Investments

The Organization follows generally accepted accounting principles (GAAP) in the United States and records investments at fair market value in the statements of financial position. As of June 30, 2011, all the investments were held by the Foundation. Investment holdings as of June 30, 2011, are composed of the following (in thousands):

	2011	
	Cost	Fair Value
Equity securities	$ 7,505	$ 8,496
Fixed income securities	4,242	4,266
Commodities	1,039	896
Alternative investments	14,738	13,730
Total investments	$ 27,524	$ 27,388

The following summarizes the net change in unrealized loss on investments (in thousands):

	Cost	Fair Value	Deficit of Fair Value Over Cost
Balance at end of the year	$ 27,524	$ 27,388	$ (136)
Balance at the beginning of the year	29,419	25,958	(3,461)
Net change in unrealized loss on investments			$ 3,325

The Organization had investment expenses of $55 thousand during the twelve months ended June 30, 2011.

Note 4: Fair Value Measurements

GAAP establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets accessible at the measurement date

Level 2 Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active

Level 3 Inputs that are unobservable

Inputs broadly refer to the assumptions that are used to make valuation decisions, including assumptions about risk. A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input both individually and in aggregate that is significant to the fair value measurement. Observable inputs include market data that are readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The Organization’s investments are primarily managed by Commonfund, a leading investment firm in line with investment guidelines approved by the Board of Directors. These guidelines provide for investment in equities, fixed income, and other securities with performance measured against appropriate indices.

Fair market valuation of the investments is based on information provided by Commonfund and its fund managers, external investment advisors, and other market factors to determine if the carrying value of these investments should be adjusted.

The following is a description of the different valuation methodologies used for assets measured at fair value within the categories listed below.

Equity securities listed on a national securities exchange are valued at the last sale price on the date of valuation unless the security is not freely tradeable due to a contractual restriction, in which case a discount to the market price is allowed. Unlisted securities are valued at the current bid prices obtained from brokers the Investment Manager deems to be reputable. Securities for which a third-party pricing sources is not available are priced on a “fair value” basis, subject to review and approval by its Fair Value Committee.

Fixed income and debt securities are generally valued by reference to outside pricing services. The pricing services generally utilize a matrix system incorporating security quality, maturity and coupon as the valuation model parameters, supplemental research and evaluation, including review of broker-dealer market price quotations. Certain fixed income securities are valued at closing market prices supplied by brokers considered by the Investment Manager to be active in the market. Certain investments may be traded by a market maker who may also be utilized to provide pricing information used to value such investments. Investments maturing within 60 days are valued at amortized cost, which approximates market value.

Short sales are generally valued at the last close price. If the last close price is not available, the ask price is used.

Purchased options are generally valued at the last sale price. If the last sale price is not available, the current bid price is used. Written options are generally valued at the last trade price. If the last trade price is not available, the ask price is used.

Private securities are generally valued according to the mark-to-market method, which attempts to apply a fair value standard by referring to meaningful third- party transactions, comparable public market valuations and/or the income approach. An investment can be carried at cost if little has changed since the initial investment in the company. If necessary, Commonfund adjusts manager valuations to conform with GAAP. For example, if a manager issues tax based financial statements the valuations are adjusted to reflect fair value.

Financial Accounting Standards Board Accounting Standards Update, issued in September 2009, reduced uncertainty in fair valuation of private fund investments. This permitted the use of reported Net Asset Values (NAV) to establish fair value for these investments if they may be redeemed at the reported NAV. Provided the necessary redemption terms exist, these investments are classified as level 2 under Accounting Standards Codification 820. Funds that are restricted from redemption are classified as Level 3.

Fair values of assets measured on a recurring basis at June 30, 2011, are as follows (in thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	$ 8,496	$ 6,295	$ 2,195	$ 6
Fixed income securities	4,266	622	3,639	5
Commodities	896	586	308	2
Alternative investments	13,730	-	8,542	5,188
Split interest agreements	138	-	-	138
Total	$ 27,526	$ 7,503	$ 14,684	$ 5,339

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Equity securities	Fixed income securities	Commodities	Alternative investments	Receivables	Total
July 1, 2010	$ 24	$ 816	$ 7	$ 4,286	$ 167	$ 5,300
Total gains and losses (realized/unrealized)	7	3	1	269	(18)	262
Purchases, redemptions, fees and settlements	(1)	597	(1)	254	(11)	838
Transfers in and/or out of level 3	(24)	(1,410)	(6)	379	-	(1,061)
June 30, 2011	$ 6	$ 5	$ 2	$ 5,188	$ 138	$ 5,339

Note 5: Property and Equipment

The Organization's investment in property and equipment as of June 30, 2011, consisted of the following (in thousands):

Land	$ 1,364
Office and warehouse	3,271
Vehicles, equipment and software	4,822
Total	9,457
Less: Accumulated Depreciation	(2,586)
Net Property and Equipment	$ 6,871

Note 6: Debt

The Organization's debt as of June 30, 2011, consists of a mortgage note payable, requiring monthly interest only payments of $7,047 at 6.04% per annum through November 20, 2012. Principal and interest payments commence on December 20, 2012, and the loan matures on November 20, 2017. The mortgage notes are secured by the Organization's warehouse facility.

As of June 30, 2011, the Organization had future minimum payments as follows for the years ending June 30 (in thousands):

2013	$ 166
2014	285
2015	285
2016	285
Thereafter	379
Total	$ 1,400

Note 7: Net Assets

Unrestricted net assets consisted of the following at June 30, 2011 (in thousands):

Designated by the Board of Directors for:	
Operating reserves	$ 29,249
Undesignated	208,702
Total unrestricted net assets	$ 237,951

Temporarily restricted net assets at June 30, 2011 (in thousands):

Use restricted for the following purposes:	
Japan earthquake relief	$ 4,237
Haiti earthquake relief	2,801
Program–specific grants	1,502
Country–specific assistance	263
Other activities	736
Subtotal use restricted net assets	$ 9,539
Time restricted, pending receipt of funds	
Bequests receivable	$ 141
Split interest agreements	138
Subtotal time restricted net assets	$ 279
Total temporarily restricted net assets	$ 9,818

Permanently restricted net assets consists of an endowed contribution of $25 thousand, the income from which is available to fund general operations.

Note 8: Endowment Funds

The Organization's endowment consists of two individual funds; (1) the Donor Restricted Endowment Fund and (2) the Board Restricted Investment Fund ("BRIF"). The Donor Restricted Endowment Fund includes "Permanently" restricted funds which have been so designated and restricted by the donor. As required by GAAP, net assets associated with endowment funds, including Board designated funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The purpose of the BRIF is to provide a reserve for future operations. The BRIF's resources come from board-designated unrestricted bequests and gifts, return on the Fund's portfolio assets and operating surpluses (measured annually) in excess of current operational needs. Effective April 1, 2007, the assets in the BRIF were all transferred to the Foundation.

Fiscal year ended June 30, 2011 endowment net asset composition by type of fund is (in thousands):

	Unrestricted	Permanently Restricted	Total
Donor-restricted	$ -	$ 25	$ 25
Board-restricted (BRIF)	29,249	-	29,249
Total endowment funds	$ 29,249	$ 25	$ 29,274

Changes in the endowment net assets for the year ended June 30, 2011 (in thousands) are:

	Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 28,404	$ 25	$ 28,429
Net investment return (investment income, realized and unrealized gains and losses)	3,230	-	3,230
Contributions	584	-	584
Appropriation of endowment assets for expenditure	(2,969)	-	(2,969)
Endowment net assets, end of year	$ 29,249	$ 25	$ 29,274

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for the endowment assets that attempt to provide a predictable stream of funding to the Organization while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that provide a reasonable balance between the quest for growth and the need to protect principal. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately six percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that currently is equally balanced between equity and fixed income investments to achieve its short term spending needs as well the long-term objectives, within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating for distribution each year an amount up to five percent of the assets of the BRIF. In some instances, the Board may decide to appropriate an amount greater than its stated policy if it is specifically deemed prudent to do so. The BRIF is authorized to distribute its portfolio assets to pay for all fundraising and administration expenses, including extraordinary capital expenses and advance emergency disaster relief funding as determined by the President & CEO. Upon a majority vote by the Board, the BRIF may also be utilized to meet other general operational costs. For the twelve months ended June 30, 2011, $2.969 million was distributed, and an additional $1.541 million was approved for distribution, to cover fundraising, administration and capital costs.

Note 9: Pension Expense

The Organization established the Direct Relief International 401(k) Plan (the Plan) on January 1, 2004. Employees of the Organization are eligible to participate upon hire and are vested 100 percent in all contributions to the Plan. The Organization matches every dollar contributed, up to five (5) percent of the employee’s annual compensation, subject to Board approval.

The Organization’s contributions to the Plan amounted to $166 thousand for the twelve months ended June 30, 2011.

Note 10: Non-Qualified Deferred Compensation Agreement

The Organization is party to a non-qualified deferred compensation agreement with the surviving spouse of a co-founder of the Organization. Under the terms of the agreement, beginning January 1, 1971, the Organization is obligated to make monthly payments in acknowledgement of his 23 years of service. The retirement agreement expense for the twelve months ended June 30, 2011, was $10 thousand.

Note 11: Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of bank and brokerage deposits. The Organization places its temporary cash investments with financial institutions and brokerages. For the twelve months ended June 30, 2011, the Organization was at risk for $6 million in cash deposited at individual financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures individual deposits up to $250 thousand. In addition, the Organization's investments are exposed to various risks, such as interest rate fluctuations and market valuations. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the Organization's statement of financial position and the statement of activities.

Note 12: Concentrations of Income Risk

The Organization received 32% of its current year cash contributions from ten single donors and 88% of its current year in-kind contributions from ten corporate donors.

Note 13: Leases

The Organization is leasing 23,043 square feet of storage space located at 30 S. La Patera Lane. The terms of this agreement end on December 31, 2012. Payments for rent and common area expenses for the lease of the facility for the twelve months ended June 30, 2011, totaled $330 thousand.

As of June 30, 2011, the Organization had future minimum payments for the storage space lease and common area expenses as follows for the years ending June 30 (in thousands):

2012	$ 350
2013	180
Total	$ 530

The Organization also leased four new photocopiers and retired three old photocopiers used in operations. Leased property having elements of ownership are recorded as capital leases in the Statement of Financial Position. The related obligations, in amounts equal to the present value of the minimum lease payments payable during the remaining term of the lease, are recorded in the long-term debt account group. Total payments on such leases for the twelve months ending June 30, 2011, were $8 thousand.

The cost of assets under capital leases totaled $28 thousand and accumulated depreciation of these assets was $4 thousand as of June 30, 2011. Depreciation expense was $7 thousand for the twelve months ending June 30, 2011. Amortization of assets held under capital lease is included with depreciation expense.

As of June 30, 2011, the Organization had future minimum payments under capital leases $24 thousand over the next five years which includes $5 thousand for interest.

Note 14: Income Taxes

The Organization is exempt from taxes on income under Internal Revenue Code section 501(c)(3) and California Revenue and Taxation Code 23701(d), therefore no amounts for income taxes are reflected in the accompanying financial statements. The Organization is not a private foundation for income tax purposes. Management is not aware of any transactions that would affect the the Organization's tax-exempt status.

The Organization evaluates uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of June 30, 2011, the Organization had no uncertain tax positions requiring accrual.

The Organization files tax returns in California and U.S. federal jurisdictions. The Organization is no longer subject to U.S. federal, state and local tax examinations by tax authorities for years before 2007.

Note 15: Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 14, 2011, the date the financial statements were issued.

SUPPLEMENTARY INFORMATION

DIRECT RELIEF INTERNATIONAL
(NON-PROFIT CORPORATION)

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 1	$ 6,177	$ -	$ 6,178
Investments	169	456	-	625
Contributions and other receivables	439	-	-	439
Inventories	206,700	-	-	206,700
Prepaid expenses	188	-	-	188
Total current assets	207,497	6,633	-	214,130
Property and equipment - net of accumulated depreciation of $2,585,844	6,871	-	-	6,871
Bequest receivable	-	-	-	-
Other assets	-	-	-	-
Total assets	$ 214,368	$ 6,633	$ -	$ 221,001
Liabilities and Net Assets				
Liabilities:				
Current liabilities				
Accounts payable	$ 356	$ -	$ -	$ 356
Current portion of capital lease	7	-	-	7
Other current liabilities	975	-	-	975
Total current liabilities	1,338			1,338
Long-term debt	1,400	-	-	1,400
Capital lease obligation	18	-	-	18
Distribution payable - split interest agreements	-	5	-	5
Total liabilities	2,756	5	-	2,761
Net assets:				
Unrestricted net assets				
Board designated reserve fund	-	-	-	-
Undesignated	211,612	-	-	211,612
Total unrestricted net assets	211,612	-	-	211,612
Temporarily restricted assets	-	6,628	-	6,628
Permanently restricted assets	-	-	-	-
Total net assets	211,612	6,628	-	218,241
Total liabilities and net assets	$ 214,368	$ 6,633	$ -	$ 221,001

The accompanying notes are an integral part of these financial statements.

DIRECT RELIEF INTERNATIONAL
(NON-PROFIT CORPORATION)

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support:				
In cash and securities:				
Contributions	$ 4,109	$ 6,572	$ -	$ 10,681
Business and foundation grants	356	5,035	-	5,391
Workplace giving campaigns	444	-	-	444
Special events	28	149	-	177
Total public support from cash and securities	4,937	11,756	-	16,693
From donated goods and services:				
Pharmaceuticals, medical supplies and equipment	388,232	-	-	388,232
Contributed freight	1,368	-	-	1,368
Contributed goods - other	14	-	-	14
Professional services received	517	-	-	517
Total from donated goods and services	390,131	-	-	390,131
Total public support	395,068	11,756	-	406,824
Revenue:				
Investment income	(6)	24	-	18
Loss on sale of investments	-	-	-	-
Change in value - split interest agreements	18	(18)	-	-
Unrealized loss on investments	(85)	-	-	(85)
Program service fees	9	273	-	282
Other income	-	-	-	-
Total revenue	(64)	279	-	215
Net assets released from restrictions:	8,770	(8,770)		-
Total public support and revenue	403,774	3,265	-	407,039
Program services:				
Medical supplies and related expenses	307,454	-	-	307,454
Supporting services:				
Administration	2,504	-	-	2,504
Fundraising	1,455	-	-	1,455
Total supporting services	3,959	-	-	3,959
Total expenses	311,413	-	-	311,413
Change in net assets	$ 92,362	$ 3,265	$ -	$ 95,627

The accompanying notes are an integral part of these financial statements.

DIRECT RELIEF INTERNATIONAL
(NON-PROFIT CORPORATION)

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

(in thousands)

	Program Services		Total Program Services	Supporting Services		Total Program and Supporting Services
	USA	International		Administration	Fundraising	June 30, 2011
Compensation and related benefits:						
Salaries	$ 740	$ 1,841	$ 2,581	$ 1,223	$ 801	$ 4,604
Payroll taxes	50	117	167	78	53	299
Employee benefits	93	216	310	155	100	565
Total compensation and related benefits	884	2,174	3,058	1,456	954	5,468
Other expenses						
Pharmaceuticals, medical equipment and supplies distributed - donated	43,753	228,392	272,145	-	-	272,145
Pharmaceuticals, medical equipment and supplies distributed - procured	112	2,067	2,179	-	-	2,179
Inventory adjustment (expired pharmaceuticals)	3,237	17,005	20,242	-	-	20,242
Accounting and legal fees	1	13	14	63	1	77
Advertising	-	-	-	4	6	10
Bank charges	-	1	1	86	-	87
Contract services	54	1,046	1,100	267	66	1,434
Contributed services	44	246	290	171	56	517
Contributed freight	219	1,149	1,368	-	-	1,368
Contributed goods	1	4	5	1	8	15
Disposal costs (expired pharmaceuticals)	7	26	33	-	-	33
Dues and subscriptions	7	29	37	15	10	62
Duplicating and printing	1	-	1	70	31	102
Equipment and software maintenance	22	62	84	24	33	140
Equipment rental	1	28	29	1	2	32
Freight and transportation	72	1,714	1,785	-	-	1,785
Grants and stipends	108	2,656	2,764	-	-	2,764
Insurance	10	30	40	13	6	59
Interest	17	40	56	18	13	88
Meetings, conferences, special events	9	39	48	18	31	97
Miscellaneous	-	-	-	7	-	7
Outside computer services	2	5	7	4	46	58
Postage and mailing services	-	3	3	14	24	41
Rent and other occupancy	82	652	734	17	12	763
Supplies	162	149	311	24	22	356
Taxes, licenses and fees	18	5	23	11	-	34
Training and education	1	16	17	2	-	19
Travel and automobile	43	360	403	38	11	452
Utilities and telephone	24	138	163	33	15	210
Web hosting	49	117	166	54	38	258
Total expenses before depreciation	48,937	258,167	307,104	2,410	1,386	310,901
Depreciation and amortization	95	255	349	94	69	512
Total functional expenses - June 30, 2011	$ 49,032	$ 258,422	$ 307,454	$ 2,504	$ 1,455	$ 311,413

The accompanying notes are an integral part of these financial statements.